



FINAL REPORT

Sustainable Funding for Natural Resources Study Committee

March 2008

MEMBERS:

Senator Dick L. Dearden, Co-chairperson
Senator Dennis H. Black
Senator David Johnson
Senator Mary Lundby
Senator Dr. Joe M. Seng

Representative Paul Bell, Co-chairperson
Representative McKinley Bailey
Representative Dan Rasmussen
Representative Henry Rayhons
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AUTHORIZATION AND APPOINTMENT

The Sustainable Funding for Natural Resources Study Committee was established by the Legislative Council and charged to “study how best to provide for sustainable funding for natural resource needs. Cooperate with the members of the Sustainable Natural Resource Funding Advisory Committee established in 2006 Iowa Acts, ch. 1185, § 43, and other interested persons in performing the study.”



Sustainable Funding for Natural Resources Study Committee

I. Committee Proceedings

The Committee conducted three meetings at the Statehouse during the 2007 Legislative Interim and the 2008 Legislative Session. The Committee met on Monday, August 13, 2007, Wednesday and Thursday, November 1 and 2, 2007, and Monday, January 28, 2008.

II. August 13, 2007, Meeting

A. Overview

The Committee adopted rules and elected Senator Dearden and Representative Bell as permanent co-chairpersons. The Committee considered information provided by members of the Sustainable Natural Resource Funding Advisory Committee.

B. Summary of Activities of the Sustainable Natural Resource Funding Advisory Committee

Mr. Richard Leopold, Director of the Department of Natural Resources and member of the Sustainable Natural Resource Funding Advisory Committee, discussed the origins of the advisory committee created in 2006 (2006 Iowa Acts, ch. 1185, § 43) with the requirement to report to the General Assembly by January 10, 2007. Mr. Leopold described the membership and work of the advisory committee, including information regarding efforts by surrounding states, an outline of a conservation funding initiative, an outline of the amount needed to accomplish the conservation funding initiative, and an analysis of the willingness of Iowans to support a conservation funding initiative. According to Mr. Leopold, the resource initiative requires an annual commitment of \$150 million from a dedicated revenue source. He discussed a number of funding mechanisms including: (1) utilizing gambling and gaming revenues, (2) deducting a fractional percentage in the state retail sales tax, (3) dedicating a portion of lottery revenues, (4) creating tax incentives or tax credits for conservation practices, and (5) utilizing bonding.

C. Public Hearing and Survey

Mr. Leopold discussed a public hearing conducted via the Iowa Communications Network, in which 210 participants provided comments, and the results of a survey of 800 Iowans. Mr. Leopold noted that the survey indicated that most persons surveyed believed water quality is a priority and environmental conservation is a shared responsibility. He stated that most people supported dedicating additional public funds for conservation, are willing to pay \$10-\$25 annually in additional taxes, preferred using gambling and gaming revenues to support a conservation initiative, and supported conservation tax credits.

Mr. Leopold noted that public support for a natural resource initiative is critical, and that the process of establishing a constitutionally protected funding mechanism would take four years.

D. Recommendations

The Committee adopted two recommendations to be forwarded to the Legislative Council for action. Both recommendations were approved by legislative leaders.



The first proposal directed the Committee to contract with the Center for Agricultural and Rural Development (CARD) at Iowa State University (ISU) to review literature and analyze and compile existing state and regional data concerning the economic impact, conservation benefits, and social benefits of natural resources in Iowa. The proposal required CARD to prepare a 60-70 page report by the end of November 2007 for an estimated cost of \$30,000.

The second proposal requested a panel of legislative colleagues from other states with successful natural resource programs to share models for legislative action in Iowa. The panel could also include staff from the Council of State Governments, the National Conference of State Legislatures, and the National Caucus of Environmental Legislators. The Committee limited the expenditures for the panel to \$3,000.

III. November 1 and 2, 2007, Meeting

A. Overview

During the first meeting day, the Committee considered presentations by Mr. Daniel Cohen, Director of the Buchanan County Conservation Board; Mr. Duane Sand, Special Projects Consultant for the Iowa Natural Heritage Foundation; Mr. Bill Northey, Secretary of Agriculture; Ms. Barbara Finch, a member of the Iowa Farm Bureau Federation; Mr. Dave Van Waus, a member of Pheasants Forever; Mr. Jon Kruse, a member of Ducks Unlimited; and Mr. Mark Ackelson, President of the Iowa Natural Heritage Foundation. All presenters, with the exception of Mr. Sand, serve as members of the Sustainable Natural Resource Funding Advisory Committee. During the second meeting day, the Committee considered presentations by a number of persons and made preliminary decisions about its next meeting. The presenters included Dr. Daniel Otto, Professor of Economics, ISU; staff from the Fiscal Services Division of the Legislative Services Agency including Mr. Jeff Robinson, Senior Legislative Analyst, Mr. Dave Reynolds, Senior Legislative Analyst, and Ms. Marcia Tannian, Legislative Analyst; and officials from other states including State Representative Lucy Allen, Chairperson of the North Carolina House Environment and Natural Resources Committee; State Representative Jason Brown from Missouri; State Senator Dennis Frederickson from Minnesota; and Mr. Bob Garner, Chairperson, Michigan Natural Resources Trust Fund Board.

B. Buchanan County Conservation Board — Mr. Cohen

Mr. Cohen discussed potential funding sources to preserve or enhance natural resources defined to include: (1) fish, wildlife, and natural areas, (2) soil and water, and (3) parks and trails. He presented polling data indicating that 77 percent of Iowans support dedicating additional public funding to programs that protect Iowa's land, water, and wildlife. He emphasized that any funding mechanism should be simple to administer, used to leverage additional moneys, and used to supplement existing sources of revenue. Mr. Cohen addressed a number of potential funding mechanisms required to annually raise all or part of \$150 million, noting that some could raise the entire amount while others would have to be combined with moneys from other sources. Mr. Cohen and Committee members discussed a number of funding mechanisms in detail, including the use of gaming revenues (such as capturing revenue based on admissions), increasing the



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state's sales tax by 3/8th of 1 cent (accomplished by a constitutional amendment), and the dedication of moneys generated from the state lottery. Mr. Cohen and Committee members also discussed the use of targeted tax credits, bonding, the real estate transfer tax, the water utility tax, a tax on outdoor recreational equipment, a sales tax on bottled water, and a biofuel severance tax. Committee members noted the need for public education and support.

C. Iowa National Heritage Foundation — Mr. Sand

Mr. Sand discussed sustainable funding sources in other states, including the use of bonds, real estate transfer taxes, gaming or lottery revenues, severance taxes, sales tax revenues, voluntary revenues (e.g., conservation tax credits), and user fees. He explained that it is difficult to compare funding sources between states due to the unique nature of each state's situation (e.g., the amount of land owned or controlled by the federal government). He discussed the advantages associated with bonding which serves as a hedge against inflation and the growing popularity of tax credits targeted to protect privately held land. Mr. Sand emphasized the need to preserve and enhance natural resources in order to keep and attract young people in the state, and to structure tax law toward employees rather than employers. He cautioned that moneys from any new funding source could be diverted by competing needs unless it is constitutionally protected. He suggested that the General Assembly reexamine Iowa's existing tax laws including tax increment financing, the agricultural land tax credit, and tax credits benefiting the biofuels industry.

D. Needs Panel

Secretary Northey, Ms. Finch, Mr. Van Waus, and Mr. Kruse discussed the proposed allocation of an additional \$150 million annually to preserve or enhance natural resources.

- **Secretary of Agriculture Northey.** Secretary Northey discussed the \$30 million proposed to support programs administered by the Department of Agriculture and Land Stewardship. According to Secretary Northey, the first \$15 million would be used to fund existing needs identified by soil and water conservation districts which are not being met by appropriations from the Environment First Fund (see Code section 8.57A), and the second \$15 million would be used to provide additional technical assistance to soil and water conservation districts, develop a stream bank and buffer stabilization project, initiate a program modeled after the federal Conservation Reserve Program, and establish a tillage management incentives program to assure adequate crop residue levels remain in areas impacted by demand for cellulosic ethanol production.
- **Iowa Farm Bureau — Ms. Finch.** Ms. Finch discussed the impact of natural resources on all other areas of government interest, the current underfunding of projects supported by the Resource Enhancement and Protection Fund (see Code section 455A.18), the need to constitutionally protect any funding source, and Iowa's lack of matching moneys required to obtain a greater share of federal moneys to support important natural resource initiatives.
- **Pheasants Forever — Mr. Van Waus.** Mr. Van Waus discussed the importance of county conservation boards, the need for increased natural resource funding to acquire additional public lands devoted to sporting and recreational activities and to create a



better quality of life for Iowans including its young people, and how private organizations like Pheasants Forever are partnering with state and local governments to carry out important conservation projects.

- **Ducks Unlimited — Mr. Kruse.** Mr. Kruse discussed the importance of lake restoration efforts, noted that the Department of Natural Resources has prioritized 35 lakes for restoration, and cited Storm Lake as an example of how a natural resources project can stimulate economic development through the successful collaboration of state government, local governments, community groups, and conservation organizations, including Ducks Unlimited.

E. Iowa Natural Heritage Foundation — Mr. Ackelson

Mr. Ackelson discussed the recent increase in land values and the private acquisition of unique land to the detriment of preservation and public uses. He urged the Committee to recommend passage of H.F. 902 (currently referred to the House Ways and Means Committee) which provides that individuals and businesses could claim a tax credit for the charitable conveyance of real property for conservation, including the conveyance of title directly or by bargain sale or the transfer of permanent conservation easements to conservation organizations. Mr. Ackelson stressed the need to consider how biomass is used in ethanol production, and suggested incentives for improving crop management practices, developing dedicated biomass energy crops, improving manure management practices, increasing sustainable grass-based livestock production, and reducing greenhouse gas emissions.

F. Iowa State University — Dr. Otto

Dr. Otto discussed the preliminary results of a study conducted by ISU on behalf of the Committee. The study includes a literature review and analysis and compilation of existing state and regional data concerning the economic impact, conservation benefits, and social benefits of natural resources in Iowa. Dr. Otto discussed the state's recreational amenities and current usage levels, estimated the economic value of these resources, and estimated the benefits of new investments in those amenities. Dr. Otto stated that Iowans are increasingly living in cities, although 88.7 percent of the state's land area is privately owned farmland. He discussed Iowa's natural resource inventory, including lakes, state parks, county parks, multiuse trails, state forests and preserves, wildlife management areas, and rivers. Dr. Otto stated that in 2006, of the total estimated annual economic impacts associated with recreational expenditures, approximately \$4.2 billion was attributed to consumers. He discussed expenses and benefits associated with lake restoration efforts, noting the success of the Storm Lake restoration project.

G. Legislative Services Agency, Fiscal Services Division

Tax Revenues. Mr. Robinson discussed net tax revenues collected by the state from October 2006 to September 2007 (\$6.3 billion) and the local option sales tax remitted to the state and distributed to local governments for the 12 months ending September 2007 (\$681 million). According to Mr. Robinson, for FY 2006-2007, the state's real estate transfer tax raised approximately \$21.7 million in state and county revenue and lottery transfers to the General Fund accounted for \$57 million. He estimated that a 3/8th cent increase in the sales tax rate would raise



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approximately \$146 million in annual revenue. Committee members discussed the possibility of imposing an excise tax on certain recreational equipment and products.

Infrastructure Funding. Ms. Tannian stated that the Rebuild Iowa Infrastructure Fund (RIIF) (see Code section 8.57) was established in 1995 with a \$50 million General Fund appropriation. The RIIF's revenue sources include interest from Iowa's "rainy day funds" (see Code section 8.55 establishing the Iowa Economic Emergency Fund and Code section 8.56 establishing the Cash Reserve Fund), a portion of state wagering taxes (see Code section 99F.4A providing for taxes imposed upon gambling at pari-mutuel racetracks, and Code section 99F.10 imposing taxes upon persons licensed to conduct gambling activities), and interest from moneys in RIIF and the Environment First Fund (see Code section 8.57A).

Ms. Tannian and Mr. Reynolds discussed allocations from the state wagering tax to the General Fund, the Vision Iowa Fund (see Code section 12.72), the School Infrastructure Fund (see Code section 12.82), with the remainder deposited in RIIF. They also discussed direct expenditures from RIIF for a number of projects. Ms. Tannian estimates that in FY 2009-2010, RIIF will have total revenues of \$251 million. The RIIF's revenues consist of 80 percent from the state's wagering tax, 12 percent from interest generated by the fund, and 8 percent from the beginning balance of RIIF.

Ms. Tannian discussed other funds with moneys available for FY 2009-2010, including the Vertical Infrastructure Fund (VIF) (see Code section 8.57B), and the Restricted Capital Account of the Tobacco Settlement Fund (see Code section 12E.12). The VIF receives appropriations from RIIF until FY 2009-2010. In FY 2009-2010, VIF is scheduled to receive \$50 million, \$40 million of which is already appropriated. The Restricted Capital Account of the Tobacco Settlement Trust Fund already has most of the money appropriated. However, \$7.6 million is available for FY 2009-2010. Between RIIF, VIF, and Restricted Capital Account funds, \$105.5 million is available for infrastructure funding (in FY 2009-2010, \$79.5 million in RIIF, \$18.4 million in VIF, and \$7.6 million in Restricted Capital Account funds). Ms. Tannian noted that RIIF revenues may be affected when annual tax credits begin for racetracks (\$4.6 million) and riverboats (\$6 million). Departmental requests for FY 2009-2010 total \$595.3 million from RIIF.

H. Officials From Other States

- **North Carolina.** Representative Allen explained that North Carolina has established four trust funds managed by four separate boards or advisory committees and supported by a number of funding mechanisms including general appropriations, a stamp tax on state deeds, and fees paid for issuance of personal license plates. The funds include the Clean Water Management Trust Fund for the remediation and preservation of surface water grants, the Agricultural Development and Farmland Preservation Trust Fund for the promotion of sustainable family farm agriculture, the Natural Heritage Trust Fund for the protection and promotion of the state's cultural and historic assets, and the Parks and Recreation Trust Fund for the expansion and improvement of state and local parks and public beach access. She also described a pending public referendum initiative calling for a \$1 billion bond to support land and water conservation.
- **Missouri.** Representative Brown discussed Missouri's constitutional amendment which dedicates 1/8 of 1 cent in sales tax revenue for conservation purposes. According to



Representative Brown, the Missouri system provides a comprehensive structure for the collection, use, and administration of constitutionally protected revenue (\$100 million collected in 2006), and for conservation efforts administered by the Missouri Department of Conservation including the acquisition of public land.

- **Minnesota.** Senator Frederickson described various revenue sources for natural resources funding in Minnesota, including a wildlife “checkoff” printed on income tax forms, the sale of specialty license plates, stamp fees imposed upon various hunting and fishing licenses, and a 6.5 percent tax on lottery tickets (“in-lieu-of-sales tax”). According to Senator Frederickson, the Minnesota Constitution establishes a permanent trust fund (supported by 40 percent of the net proceeds from the state lottery until 2025) for the protection, conservation, preservation, and enhancement of the state’s air, water, land, fish, wildlife, and other natural resources. He described the state’s Legislative-Citizen Commission on Minnesota Resources which makes recommendations regarding natural resource projects. He also described a legislative proposal estimated to raise \$291 million by increasing the state sales tax by 3/8 of 1 cent which would support habitat conservation, clean water initiatives, and cultural legacy projects.
- **Michigan.** Mr. Garner stated that Michigan’s Constitution and Natural Resources and Environmental Protection Act authorizes the creation of the Michigan Natural Resources Trust Fund, administered by a board of trustees, for the acquisition of land or rights in lands for recreational uses or the protection of the land because of its environmental importance or scenic beauty, and for the development of public recreation facilities. According to Mr. Garner, the fund is supported by revenues from leases on state-owned land for the extraction of nonrenewable resources, with \$20-\$25 million available for allocation each year.

I. Committee Discussion

Members discussed acquiring additional information regarding how \$150 million in proposed additional revenue would be allocated. Members discussed possible funding options including a proposed constitutional amendment dedicating 1/8th of 1 cent in sales tax revenue for natural resources, and the importance of interested organizations educating the public regarding the need for dedicated funding for natural resources.

IV. January 28, 2008, Meeting

A. Overview

The Committee considered testimony by Dr. Otto who presented the Committee with the results and final report of the study performed for the Committee. The Committee then discussed and approved recommendations.

B. Dr. Otto

Dr. Otto discussed Iowa's outdoor recreational amenities and current usage levels, estimated the economic value of these resources, and estimated the benefits of new investments in those amenities, including the importance of outdoor recreation opportunities to Iowans and its economy,



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the return of investment in natural resources, and its impact upon economic development. Dr. Otto discussed how young, educated workers use natural resources amenities. He also discussed the Iowa Lakes Valuation Project, which is a collaborative project involving economists and ecologists studying Iowa's lakes, noting that while investments in water quality are expensive, under most circumstances the benefits outweigh the costs, and cited the investments made at Storm Lake as an example of the potential benefits.

Dr. Otto provided cost and benefit analyses for lake restoration and preservation projects at 14 lakes in Iowa, and made recommendations to increase the economic benefits of investments made in outdoor recreation, including linking outdoor recreation amenities to create a critical mass and synergies; leveraging investments with multiple benefits; collecting additional data on usage patterns, preferences, resources available, and resource quality; and targeting quality-of-life investments to benefit new and current residents.

C. Committee Discussion and Recommendations

The Committee discussed presentations provided during the Committee meetings and issues presented during those meetings. The Committee considered a number of issues related to a proposed constitutional amendment that would provide a dedicated funding source to support natural resources and outdoor recreation. As part of that discussion, the Committee considered issues related to deferred maintenance needs of Iowa's parks and outdoor recreation facilities; the need for public education as part of the process of increasing funding; additional information required to be furnished to the Committee by the Department of Agriculture and Land Stewardship for its soil and water conservation initiative; the possibility of future reductions in statutorily appropriated funding; and whether there should be a provision which requires a 10-year review of any approved funding source.

After discussion, the Committee made the following recommendations:

- The General Assembly adopt H.F. 902 or S.F. 587 which creates a charitable conservation contribution tax income tax credit.
- A dedicated funding source be used to support the \$150 million needs assessment identified by the Sustainable Natural Resource Funding Advisory Committee.
- The Sustainable Natural Resource Funding Advisory Committee be reauthorized.
- The General Assembly consult with the Sustainable Natural Resource Funding Advisory Committee regarding the amount of funding that is required to satisfy deferred maintenance needs.
- A Water Quality and Outdoor Recreation Trust Fund be created within the state treasury.
- A constitutional amendment be placed on the ballot that would constitutionally protect a 3/8th of 1 cent increase in the state's sales tax to raise approximately \$146 million per year to support needs identified by the Sustainable Natural Resource Funding Advisory Committee, and that the dedicated moneys should be in addition to and not replace existing moneys dedicated for natural resources and outdoor recreation.



V. Materials Filed With the Legislative Services Agency

The following materials listed were distributed at or in connection with the Committee's three meetings and are on file with the Legislative Services Agency. The materials may be accessed from the <Additional Information> link on the Committee's internet page:

<http://www.legis.state.ia.us/aspx/Committees/Committee.aspx?id=212>.

1. Final Meeting Notice - January 28, 2008.
2. Sustainable Funding for Natural Resources Study Committee - Draft Memorandum.
3. Final Report "The Economic Value of Iowa's Natural Resources" prepared by Dr. Daniel Otto, Dr. Dan Monchuk, Dr. Kanlaya Jintanakul, and Dr. Catherine Kling.
4. Presentation by Dr. Dan Otto, Economics Department, Iowa State University.
5. Presentation by Mr. Jeff Robinson, Fiscal Services Division, Legislative Services Agency.
6. Presentation by Ms. Marcia Tannian, Fiscal Services Division, Legislative Services Agency.
7. Presentation by Representative Lucy T. Allen, North Carolina House of Representatives.
8. Handout Submitted by Representative Allen, "Saving the Goodliest Land."
9. Handout Submitted by Representative Allen, "Group Urges N.C. General Assembly to Prepare Now for Impact of 'Population Tsunami'..."
10. Handout Submitted by Representative Allen, "NC's Conservation Trust Fund Awarded by County 1987-2006."
11. Handout Submitted by Representative Allen, "North Carolina's Conservation Trust Funds: 2005 Trust Fund Statistics."
12. Handout Submitted by Representative Allen, "North Carolina's Conservation Trust Funds - Protecting Clean Water, Forests, Farms, and Historic Site."
13. Handout Submitted by Representative Allen, Joint Legislative Commission on Land and Water Conservation, January 24, 2007.
14. Handout Submitted by Representative Jason Brown, Missouri House of Representatives, Design for Conservation Sales Tax Summary.
15. Biography of Senator Dennis Frederickson, Minnesota State Senate.
16. Handout Submitted by Senator Frederickson, Information for the Iowa Sustainable Funding for Natural Resources Study Committee, November 2, 2007.



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17. Handout Submitted by Senator Frederickson, Legislative-Citizen Commission on Minnesota Resources (LCCMR).
18. Handout Submitted by Senator Frederickson, Conference Committee Report on H.F. No. 2285.
19. Handout Submitted by Senator Frederickson, Funding From Proposed Constitutional Amendment.
20. Handout Submitted by Mr. Bob Garner, Michigan Natural Resources Trust Fund Board.
21. Presentation by Mr. Dan Cohen, Director, Buchanan County Conservation Board.
22. Presentation by Mr. Duane Sand, Iowa Natural Heritage Foundation.
23. Sustainable Natural Resource Advisory Committee Funding Vehicle Summary.
24. Sustainable Natural Resource Advisory Committee Funding Mechanism Summary.
25. Presentation by Secretary of Agriculture Northey.
26. Presentation by Mr. Mark C. Ackelson, Iowa Natural Heritage Foundation.
27. Handout of Sustainable Natural Resource Funding Advisory Committee.
28. Proposed Rules.
29. Membership.
30. Charge.
31. Background Information.
32. Sustainable Natural Resource Funding Advisory Committee Presentation.